



UNIVERSITI PUTRA MALAYSIA

**RISDA SEMAIAN & LANSKAP SDN. BHD.
(RSSB)'S DIVERSIFICATION POLICY: A CASE STUDY**

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1997/1998**



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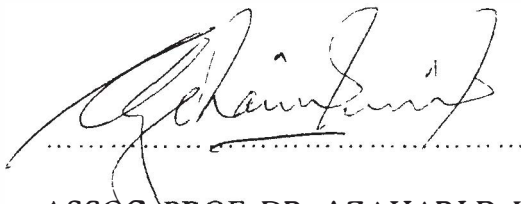
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Trust in the Lord with all your heart, and lean not unto your own understanding.
In all your ways acknowledge Him, and He will direct your path.

Proverbs 3:5-6

I want to thank my supervisor, Assoc. Prof. Dr. Azahari Ismail for his invaluable advice, conscientious supervision and light-hearted jokes in the process of birthing this project paper. You are one of a kind, Dr.

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Abstract of Research Project presented to the Senate of Universiti Putra
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By

WENDY CHAN WAI MEI

April 1998

Supervisor : Assoc. Prof. Dr. Azahari b. Ismail

Faculty : Faculty of Educational Study

This case study was carried out to observe RSSB's Diversification Policy. The purpose of the study was to secure an understanding of what RSSB's diversification policy was about, how it was implemented, what problems were encountered during the implementation and what strategies were used to overcome the problems. During the preliminary stage of the study, an extensive search for a better grasp of the process of diversification was done by analyzing the steps and considerations taken by other companies that have undergone diversification. In this study, it was found that successful diversification could be achieved if the particular company carried out

extensive analysis of the environment, observed the take off timing and considered six questions identifying their strategic assets. 12 senior managers from RSSB were chosen as respondents because they were involved directly in the formation and implementation of the policy. In-depth interviews, semi-structured questionnaire and historical data analysis were carried out to obtain a first hand view of the respondents perception regarding the diversification policy. All interviews were tape-recorded and subsequently transcribed to facilitate data analysis. Semi-structured questionnaires were distributed to the managers who were inaccessible because of distance. The study found that the respondents understood and implemented the policy according to what were expected. In addition, the formation and the implementation of the policy were congruent with the analysis suggested by literature review. As expected, the study revealed that prior to the formation of the policy, RSSB had done an in-depth analysis of the environment and an objective SWOT analysis of the company. It also did a stock-check of its strategic assets. Although the respondents faced many problems in the implementation of the diversification policy, they showed an optimistic attitude in finding ways to overcome these problems. A series of recommendation to improve on the policy was made based on the analysis of the problems indicated and based on suggestions from respondents. This study is a reaffirmation that RSSB has taken all the right steps and action in the formation and implementation of the diversification policy.

Abstrak Projek Penyelidikan yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Sarjana Sains.

**POLISI KEPELBAGAIAN
RISDA SEMAIAN & LANSKAP SDN. BHD. (RSSB):
SATU KAJIAN KES**

Oleh

WENDY CHAN WAI MEI

April 1998

Penyelia : Prof. Madya Dr. Azahari b. Ismail

Fakulti : Fakulti Pengajian Pendidikan

Kajian ini adalah berkaitan dengan Polisi Kepelbagaian RSSB. Tujuan kajian ini ialah untuk memahami bagaimana RSSB merangka dan melaksanakan polisi ini, apa cabaran yang dialami serta strategi-strategi yang telah digunakan untuk menangani cabaran-cabaran tersebut. Pada peringkat awal, usaha untuk memahami proses urutan kepelbagaian dijalankan dengan meneliti contoh-contoh kajian syarikat-syarikat yang telah melalui proses kepelbagaian. Untuk kajian ini, ciri-ciri program kepelbagaian yang berjaya adalah hasil analisa persekitaran, isu perlaksanaan masa dan penghayatan

enam soalan kritis untuk mengenalpasti aset-aset strategik. 12 pegawai atasan RSSB telah dikenalpasti kerana mereka merupakan pengolah serta pelaksana polisi kepelbagaian ini. Data diperolehi melalui temubual secara mendalam, soal-selidik separa berstruktur dan analisa bahan bertulis seperti minit-minit mesyuarat dan kertas kerja. Kesemua temubual dirakamkan dan ditranskripikan sepenuhnya untuk memudahkan kerja penganalisisan data. Manakala, soal-selidik digunakan untuk memperolehi data dari responden yang tidak dapat ditemui kerana berjauhan. Hasil kajian ini mendapati bahawa kesemua responden memahami dan melaksanakan polisi ini seperti apa yang diharapkan. Dalam pada itu, didapati juga bahawa pengolahan dan pelaksanaan polisi ini adalah selaras dengan hasil yang diteliti dalam kajian kes syarikat-syarikat yang telah melalui proses kepelbagaian ini. Seperti yang dijangka, RSSB telah membuat analisa persekitaran, analisa kekuatan dan kelemahan syarikat serta mengenal pasti aset-aset strategiknya sebelum melaksanakan polisi ini. Walaupun, responden-responden menghadapi pelbagai cabaran, namun mereka mempamerkan sikap yang positif dalam menghadapi cabaran-cabaran tersebut. Cadangan-cadangan yang diutarakan adalah berdasarkan cabaran yang telah dikenalpasti serta mengambilkira cadangan-cadangan dari responden-responden. Secara keseluruhannya, kajian ini mengesahkan bahawa RSSB telah mengambil langkah-langkah yang betul dalam mengolah dan melaksanakan polisi kepelbagaian.

CHAPTER 1

INTRODUCTION

Background of the Study

One of the strategies to promote agricultural development is through agricultural diversification. Thus, policy makers and agricultural planners see it as an opportunity that offers reduction in produce and price risks, increase flexibility, increase in agricultural incomes and sustained productivity and growth. The agricultural sector has been the backbone, driving force and economic supporter of the majority of the population as far back as the British Colonial Government's era (Mokhtar, 1990). Malaysia's agriculture sector consisted of two major sub-sectors, that is, the plantation sub-sector and the smallholdings sub-sector. Past developments in the agricultural sector has contributed to the increase in the diversification thrust while at the same time, industrialization has lead to a shortage of labour in the agricultural sector.

The first notable development is in the declining contribution to the national economy. In a study carried out in 1982 by the World Bank, it was found that the percentage share of the agricultural sector in GDP was lower than that of the labour share in GDP (see Table 1.1). As a consequent, nonagricultural sectors such as the manufacturing industries, were drawing the resources (both human and raw materials) away from agriculture thus pushing farmers into urban jobs as a result of low income from the agricultural sector. Prices of the main commodities such as rubber and oil

palm remains stagnant.

Table 1.1 shows Malaysia experiencing a slight drop of 7% from 1965 as compared to 1988 in percentage share of agriculture to the GDP. In addition, the drop in labour share for Malaysia saw almost double drop in percentage from 60% in 1965 to 36% in 1988. Most of the Southeast Asian countries reported a similar average drop with the exception of the Philippines which experienced not so drastic a drop. As such, the figures in Table 1.1 show one of the reasons why diversification into other sectors was necessary.

Table 1.1 : Percentage Share of Agriculture in GDP and Employment in Selected Countries 1965 and 1988

Country	% Share of Agricultural in GDP		% Share of Labour in Agricultural	
	1965	1988	1965	1988
<u>Southeast Asia</u>				
Malaysia	28	21	60	36
Thailand	32	17	82	59
Philippines	26	23	57	49
Indonesia	56	24	71	55
<u>Middle East and North Africa</u>				
Egypt	29	20	55	42
Turkey	34	19	75	52
Syria	25	22	52	25
Morocco	22	18	61	40
Tunisia	20	17	49	32
Jordan	18	8	37	6
Algeria	13	8	57	24

Source: World Bank 1982, 1990b

The second development involves the rapid progress in agricultural production technologies. These new technologies have enabled the farmers to increase output per unit area and provided them with a more flexible farming option and system. By diversifying the type and volume of crop production, these farmers were able to increase their production, income and selling power. Thus, emerging as the modern farmers.

The third development is the increasing awareness of the effect of current production practices on the environment. For example, it was found that the long term decline in rice yields can be attributed to the combined effects of increased pest pressure, depletion of soil micronutrients and changes in soil chemistry induced by intensive cropping (Flinn & De Datta 1984, Pingali et al 1990).

The fourth development is the influence of shifting consumer demands on the world market. Globalization has created a more competitive consumption pattern. Because of improved technologies and shifting consumer demands, countries as shown in Table 1.2 have resorted to the production of nontraditional commodities such as fruits, vegetables, roots and tubers (tapioca, sweet potato and etc) to keep up with the increasing demands of agriculture products. The figure for each year keeps on increasing. Table 1.2 shows the production of selected commodities in selected countries during the 70's and the 80's.

Table 1.2 : Production of the Selected Commodities in Selected Southeast Asia and Middle Eastern Countries 1970-1988 (Million Metric Ton)

Commodity & Country	1970	1975	1980	1985	1988
<u>Fruits</u>					
Indonesia	3 53	3 74	4 21	5 48	6 35
Malaysia	0 84	0 84	0 96	1 08	1 17
Philippines	2 04	2 74	6 15	6 18	5 11
Thailand	2 37	4 10	7 18	5 43	5 56
Egypt	1 45	2 06	2 28	2 99	3 52
Jordan	0 06	0 03	0 09	0 12	0 17
Morocco	1 45	1 27	1 67	1 75	2 16
Syria	0 34	0 52	0 74	0 99	1 43
Turkey	6 29	6 37	7 73	8 00	8 92
<u>Vegetables</u>					
Indonesia	2 40	2 59	2 46	3 51	3 53
Malaysia	0 45	0 51	0 61	0 53	0 54
Philippines	0 65	0 79	1 01	0 81	0 88
Thailand	1 93	2 50	2 75	2 46	2 48
Egypt	5 20	6 40	7 30	8 97	10 02
Jordan	0 25	0 31	0 45	0 63	0 62
Morocco	0 96	1 31	1 26	1 45	1 55
Syria	0 72	2 11	3 11	2 20	2 54
Turkey	9 17	10 29	13 03	16 60	16 87
<u>Root and Tubers</u>					
Indonesia	13 95	15 53	16 38	16 84	18 27
Malaysia	0 44	0 46	0 46	0 50	0 51
Philippines	1 33	1 79	3 61	2 63	2 75
Thailand	3 82	7 62	16 94	19 50	22 53
Egypt	0 67	0 86	1 39	1 71	2 02
Jordan	-	-	0 01	0 03	0 05
Morocco	0 28	0 20	0 54	0 84	0 80
Syria	0 07	0 13	0 29	0 28	0 34
Turkey	1 92	2 49	3 00	4 10	4 35
<u>Palm Oil</u>					
Indonesia	0 22	0 40	0 72	1 24	1 44
Malaysia	0 43	1 26	2 57	4 14	5 03
Philippines	-	0 01	0 01	0 03	0 04
Thailand	-	-	0 02	0 09	0 16
<u>Sugar</u>					
Indonesia	0 71	1 03	1 25	1 77	1 86
Malaysia	-	0 05	0 05	0 08	0 09
Philippines	1 93	2 39	2 27	1 61	1 34
Thailand	0 41	1 14	1 10	2 57	2 70
Egypt	0 53	0 55	0 67	0 90	1 03
Morocco	0 16	0 26	0 36	0 49	0 69
Syria	0 03	0 03	0 05	0 06	0 02
Turkey	0 65	0 99	0 94	1 40	1 41

Source: U.S. Department of Agriculture, 1990.

It is therefore a most challenging decision for a company or an organization involved in agriculture to confront whether to diversify or not. Given the fact that labour is steadily shifting from the lower paid agricultural works to the better paid and better working environment industrial sector. The stigma attached to the low human esteem of the agriculture workers also contributes to steady decline of the new workforce joining the ranks in agriculture.

However, the rewards and the risks can be extraordinary in diversification. Even in the industrial sector, diversification is a risky business too. This is attested to observations of success stories such as GE (General Electric), UK's Boddington Group and Disney. On the other continuum, UK's Blue Circle Industries and China's Giant Advanced Technology Group are examples of diversification ending up disastrous.

RSSB (Risda Skim 1956 Sdn Bhd) was a subsidiary of RISDA, given the mandate to manage the nurseries and seed gardens of RISDA with the aim of providing quality planting materials for the plantation industries – principally in the provision for rubber and oil palm plantations. It started its operations in 1994. In 1995, planting materials of timber species was introduced. The objective of the introduction of timber materials was to facilitate planters to incorporate timber into their plantations as an additional source of income. Further more the planting of these timber trees serve as replacement or boundary planting.

In 1996, an additional unit was set up which is the Horticulture and Landscaping unit. It is headed by a Horticulture and Landscape manager. This unit started off with a low profile by stocking landscape materials. In 1997, trading of landscape materials

started modestly. On 20 October 1997, Risda Skim 1956 Sdn Bhd changed its name to Risda Semaian & Lanskap Sdn Bhd, still maintaining the acronyms of RSSB. As such, this study is on the diversification policy of RSSB from that of being a supplier of rubber/oil palm planting materials to landscaping services.

Statement of the Problem

Many companies gear into diversification because of the need to reestablish their stability in turbulent environment facing the organizations of today. Some diversification plans are successful and some end up disastrous. What then are the steps that an organization should consider before embarking on a diversification plan? And if there are steps, has RSSB taken that path since landscaping is considered a relatively new sphere for RSSB. Based on case studies of successful and nonsuccessful diversified companies, there are six questions that an organization should consider before embarking on a diversification plan. These questions only ensure that the risk in diversification is minimized not abolished.

Objective of the Study

The purpose of the study is to understand the concept and process adopted by RSSB in trying to implement its diversification policy. The main objective is to understand the diversification policy of RSSB in relation to the nursery and landscaping thrust.

The specific objectives are:

1. to understand the course taken by RSSB in the implementation of its policy,
2. to understand the problems and challenges faced during the implementation, and
3. to understand the steps and efforts taken by RSSB to face the problems and challenges.

Significance of the Study

The result of the study has a three-pronged implication. Firstly, the findings will add to the existing body of knowledge in diversification planning. Secondly, the findings can be used as a guide for practitioners interested in diversification management. Finally, the findings would enable RSSB to take stock of its direction in this policy as seen from an unbiased viewpoint (i.e. the researcher).

Definition of Terms

Diversification - refers to activities or actions taken to increase the array of commodities and products in the agricultural sector with the purpose of expansion and deepening of the agricultural production base.

Personal compact--refers to the reciprocal, agreements which employee and the organization commit mutually either stated or implied to define their relationship.

Sigmoid Curve--refers to an S-shaped curve depicting the life cycle of a product and generally of a corporation's development and fall.

Strategic assets--refers to qualitative and quantitative exact nature of the strengths of the organization.